

EXECUTIVE SECRETARIAT
ROUTING SLIP

TO:

		ACTION	INFO	DATE	INITIAL
1	DCI				
2	DDCI				
3	EXDIR				
4	D/ICS				
5	DDI				
6	DDA				
7	DDO				
8	DDS&T				
9	Chm/NIC				
10	GC				
11	IG				
12	Compt				
13	D/Pers				
14	D/OLL				
15	D/PAO				
16	SA/IA				
17	AO/DCI				
18	C/IPD/OIS		✓		
19	WFO/ECOP				
20					
21					
22					
SUSPENSE		Date			

Remarks

CC:

OGI

Executive Secretary

9/5/84

Date

3637 (10-81)

STAT

STAT

WASHINGTON

Executive Registry

84-8056

CABINET AFFAIRS STAFFING MEMORANDUM

Date: 9/4/84 Number: 169051CA Due By:

Subject: Cabinet Council on Economic Affairs Planning Meeting - September 6

8:45 a.m. - Roosevelt Room

TOPIC: Financial Mkt. Developments

	Action	FYI		Action	FYI
ALL CABINET MEMBERS	<input type="checkbox"/>	<input type="checkbox"/>	CEA	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Vice President	<input checked="" type="checkbox"/>	<input type="checkbox"/>	CEQ	<input type="checkbox"/>	<input type="checkbox"/>
State	<input type="checkbox"/>	<input checked="" type="checkbox"/>	OSTP	<input type="checkbox"/>	<input type="checkbox"/>
Treasury	<input checked="" type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Defense	<input checked="" type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Attorney General	<input type="checkbox"/>	<input checked="" type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Interior	<input type="checkbox"/>	<input checked="" type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Agriculture	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Baker	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Commerce	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Deaver	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Labor	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Darman (For WH Staffing)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
HHS	<input type="checkbox"/>	<input checked="" type="checkbox"/>	McFarlane	<input type="checkbox"/>	<input checked="" type="checkbox"/>
HUD	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Svahn	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Transportation	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	Chapman	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Energy	<input type="checkbox"/>	<input checked="" type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Education	<input type="checkbox"/>	<input checked="" type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Counsellor	<input checked="" type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
OMB	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
CIA	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
UN	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
USTR	<input checked="" type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
			Executive Secretary for:		
GSA	<input type="checkbox"/>	<input type="checkbox"/>	CCCT	<input type="checkbox"/>	<input type="checkbox"/>
EPA	<input type="checkbox"/>	<input type="checkbox"/>	CCEA	<input checked="" type="checkbox"/>	<input type="checkbox"/>
NASA	<input type="checkbox"/>	<input type="checkbox"/>	CCFA	<input type="checkbox"/>	<input type="checkbox"/>
OPM	<input type="checkbox"/>	<input type="checkbox"/>	CCHR	<input type="checkbox"/>	<input type="checkbox"/>
VA	<input type="checkbox"/>	<input type="checkbox"/>	CCLP	<input type="checkbox"/>	<input type="checkbox"/>
SBA	<input type="checkbox"/>	<input type="checkbox"/>	CCMA	<input type="checkbox"/>	<input type="checkbox"/>
			CCNRE	<input type="checkbox"/>	<input type="checkbox"/>

REMARKS:

There will be a CCEA Planning Meeting on Thursday, September 6, 1984, at 8:45 a.m. in the Roosevelt Room.

The agenda and background paper are attached.

RETURN TO:

☐ Craig L. Fuller
Assistant to the President
for Cabinet Affairs

☐ Don Clarey ☒ Tom Gibson ☐ Larry Herbolsheimer
Associate Director
Office of Cabinet Affairs

DCI
EXEC
REG

THE WHITE HOUSE

WASHINGTON

September 4, 1984

MEMORANDUM FOR THE CABINET COUNCIL ON ECONOMIC AFFAIRS

FROM: ROGER B. PORTER *RBP*

SUBJECT: Agenda and Papers for the September 6 Meeting

The agenda and papers for the September 6 meeting of the Cabinet Council on Economic Affairs are attached. The meeting is scheduled for 8:45 a.m. in the Roosevelt Room.

The Council will consider the report of the Working Group on Financial Market Developments. The members of the Working Group has prepared three papers. The first, from William Poole, provides a "Financial Markets Update." He reviews what has happened to interest rates and stock prices since the last update on June 21. He also discusses the current forces operating on the markets.

The second paper, prepared by Gregory Ballentine, deals with "Inflation, the Cycle, and the Dollar." It concentrates on what generally occurs in inflation patterns over the course of a business cycle and on the impact of the strength of the dollar on recent levels of inflation.

The third paper, by Beryl Sprinkel, reviews "The Outlook for the Economy and Monetary Policy."

Attachments

THE WHITE HOUSE
WASHINGTON

CABINET COUNCIL ON ECONOMIC AFFAIRS

September 6, 1984

8:45 a.m.

Roosevelt Room

AGENDA

1. Financial Market Developments (CM# 111)

COUNCIL OF ECONOMIC ADVISERS
WASHINGTON, D. C. 20500

~~MARTIN FELDSTEIN, CHAIRMAN~~
WILLIAM A. NISKANEN
WILLIAM POOLE

August 31, 1984

MEMORANDUM TO CCEA

FROM: William Poole *W.P.*
SUBJECT: Financial Markets Update

Since our last financial markets update on June 21 the big news in the credit markets is that there isn't much news. Much of the bond market nervousness apparent in the spring has disappeared. The stock market surged dramatically in early August, but otherwise has been fairly stable. These developments reflect an underlying economic environment that the the markets perceive to be relatively stable.

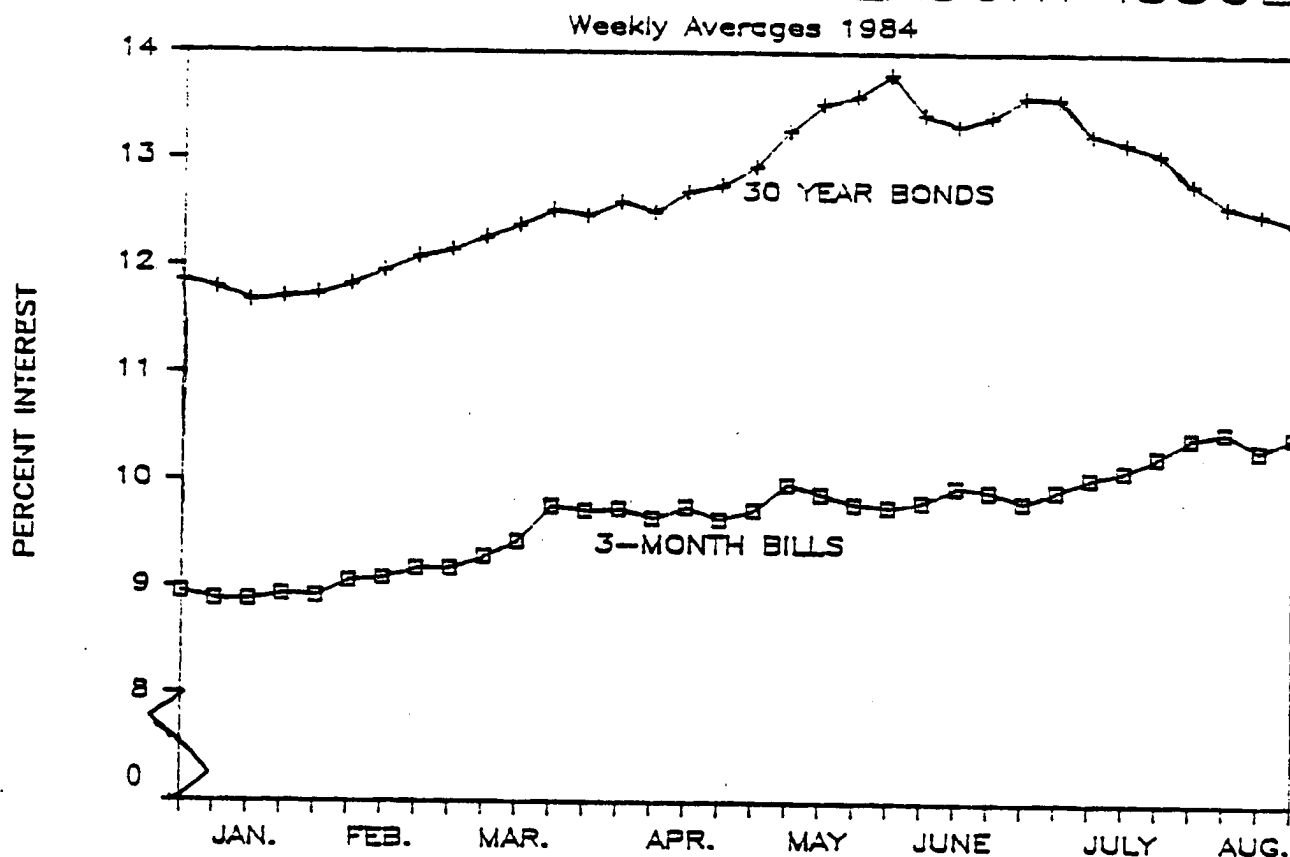
Interest Rates

The chart below shows the weekly average 3-month Treasury bill rate and 30-year Treasury bond yield from January through August of this year. The bill rate rose by about 80 basis points from early January to late May and by another 70 basis points to late August. In contrast, the bond yield rose by 200 basis points from January to late May -- an unusually large increase relative to the magnitude of the bill rate increase. Since late May a more normal bill-bond yield relationship has been restored as the bond yield declined by about 140 basis points from late May to late August. The net change from early January to late August is that bills are up by about 150 basis points and bonds by about 55 basis points.

The increase in the bill rate since late May overstates the upward pressure on the short end of the market. The Continental Illinois Bank problems produced a minor "flight to quality" that held the bill rate down in May. As the markets have steadied that phenomenon has largely disappeared. By late August the rates on CDs and commercial paper were at or below their levels in early July. The prime rate, at 13.00 percent, hasn't changed since late June.

-2-

INTEREST RATES ON TREASURY ISSUES



Source: Council of Economic Advisers

Taking the January-August period as a whole, the flattening of the yield curve is a sign that market appraisals of the future are becoming more stable. As noted, from January to August the increase in the bond yield was about one-third the increase in the bill yield. In contrast, over the same months of 1983 the bond yield rose by 166 basis points while the bill rate was rising by 148 basis points. Experience this year is a return toward the historical norm and away from the almost one for one yield changes in the short and long markets that characterized most of the period from 1979 to 1983.

Yields on fixed rate home mortgages have been rising most of the year, reflecting the usual lag behind long-term bond yields. However, with bond yields declining significantly starting in early July, mortgage rates first leveled off in July and then declined in August.

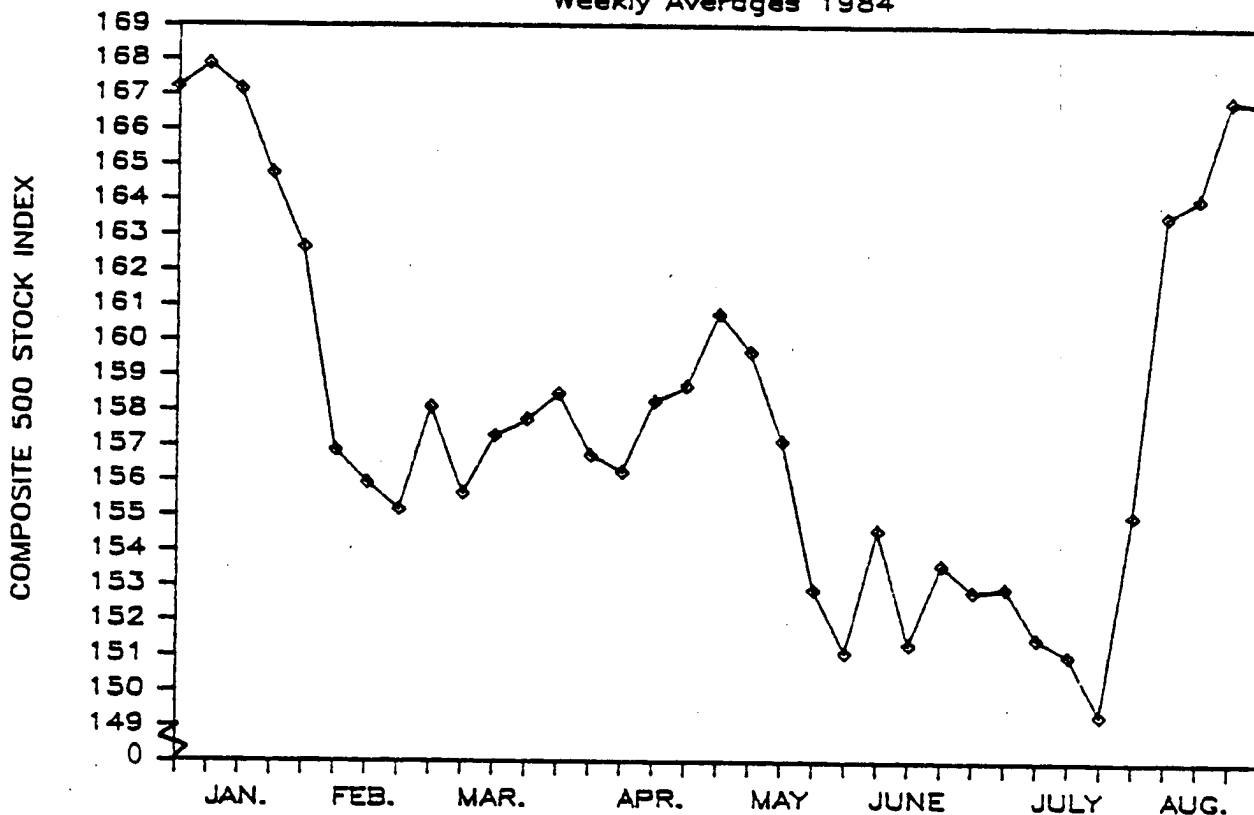
-3-

Stock Prices

From January through late July stock prices fluctuated irregularly downward. The first three days of August saw an explosive rise in stock prices on extremely heavy volume. Some further gains occurred over the rest of August, taking broad stock price indexes back to their January levels.

STANDARD & POOR'S STOCK INDEX

Weekly Averages 1984



Source: Council of Economic Advisers

Forces Operating on the Markets

Neither the timing nor the magnitude of the early August surge in the stock market can be explained. But, in general, both the bond and stock markets seem to be responding to the following economic forces:

- o Economic data indicating a slower pace of expansion reduce fears that higher credit

-4-

will push interest rates up. Such news also reduces concerns that the Federal Reserve will tighten monetary policy by pushing rates up.

- o Slower money growth suggests that the Federal Reserve has no compelling reason to push interest rates up.
- o Federal Reserve statements are examined closely for clues as to the Fed's analysis of the economic situation and the Fed's policy intentions. In July the Fed's mid-year economic report was greeted positively because it seemed to promise no immediate tightening of monetary policy. Conversely, the FOMC's July Policy Record released in late August produced a minor upward blip in interest rates because it seemed to lower the odds that monetary policy might be eased in coming months.

The net effect of the stream of economic data releases, statements by public officials, and moderating growth in credit demands has been to produce the market behavior outlined earlier in this memorandum. As noted above, the only noteworthy features of the recent course of interest rates are the greater stability in the credit markets and the substantial reversal of the run-up in bond yields that occurred between January and late May.